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ABSTRACT

Section 121 of the Workforce Investment Act of 1998 (WIA) requires Regional Workforce Investment Boards (RWIB) to develop a memorandum of understanding (MOUs) with the Regional Workforce Development Center (RWDC) partners to detail how resources will be coordinated across funding streams to operate and provide services for RWDC delivery systems. This document provides guidelines designed to serve as a model for Iowa's community college-based adult basic education local program providers for inclusion of basic literacy skills programs, services, funding, and ancillary services in the RWIB's MOU developed under Title II of the WIA. The document is organized into the following sections: (1) MOU definition; (2) MOU guideline assumptions; (3) required partners to be included in the RWIB MOU; (4) required components of the MOU; (5) failure to execute an MOU; (6) sources of information; (7) Attachment A (national reporting system performance measures, benchmarks, methodologies); and (8) Attachment B (suggested guidelines for costs allocation plans). (KC)

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Workforce Investment Systems: Adults; Dislocated Workers; Youth; Job Corps; Native American programs; Migrant and Seasonal Farmwork programs; and Veterans' workforce programs

Workforce Investment-Related Activities

Adult Education and Family Literacy Act

Rehabilitation Act Amendments of 1998

Welfare-to-Work Programs

Employment and Training Activities carried out by Department of Housing & Urban Development

Perkins Vocational & Applied Technology Education Act

MOU

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DEANS AND DIRECTORS

January 2000

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MOU

Guidelines for the Development of
A Memorandum of Understanding for the
Adult Education and Family Literacy Act under the
Auspices of the Workforce Investment Act of 1998

IOWA ASSOCIATION OF ADULT AND CONTINUING EDUCATION
DEANS AND DIRECTORS

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PERSPECTIVE

Section 121 of the Workforce Investment Act of 1998 (WIA) requires Regional Workforce Investment Boards (RWIB) to develop memorandums of understanding (MOUs) with the Regional Workforce Development Center (RWDC) partners to detail how resources will be coordinated across funding streams to operate and provide services for RWDC delivery systems.

In accordance with WIA, Section 121(c)(1) and (2) and WIA Regulations, Part 662-Subpart C, each Regional Workforce Investment Board, with the agreement of the chief elected official, will develop and enter into a Memorandum of Understanding (between the RWIB and the RWDC partners) concerning the operation of the RWDC delivery system in Iowa's fifteen (15) community college districts. Each MOU shall contain provisions describing:

- the services to be provided through the RWDC delivery system;
- how the costs of such services and the operating costs of the system will be funded;
- methods for referral of individuals between the RWDC operator and the RWDC partners, for the appropriate services and activities;
- the duration of the memorandum and the procedures for amending the memorandum during the term of the memorandum;
- such other provisions, consistent with the requirements of Title I of WIA, as the parties to the agreement determine to be appropriate.

These guidelines are designed to serve as a model for Iowa's community college based adult basic education local program providers for inclusion of basic literacy skills programs, services, funding and ancillary services in the Regional Workforce Investment Board's Memorandum of Understanding developed under the auspices of Title II of the Workforce Investment Act of 1998 (Adult Education and Family Literacy Act [AEFLA]). The community college based adult basic education program providers are the state certified programs for delivery of basic literacy skills and ancillary services under the aegis of the Adult Education and Family Literacy Act.

The guidelines are divided into the following areas: (1) MOU definition, (2) MOU guideline assumptions, (3) required partners to be included in the RWIB Memorandum of Understanding, (4) required components of the MOU, (5) failure to execute an MOU, (6) sources of information, (7) attachment A, and (8) attachment B. The guidelines were compiled from the following sources: (1) Workforce Investment Act of 1998; Titles I, II, and V, (2) U.S. Department of Education/Division of Adult Education and Literacy's Program Memorandum #99-14 dated June 1, 1999, (3) Iowa's State Plan For Adult Basic Education: Fiscal Years 2000-2004, (4) PowerPoint presentations for Titles I and II of WIA, (5) New York State Department of Education's MOU Template.

Definition of Memorandum of Understanding

An agreement developed and executed between the Regional Workforce Investment Board (RWIB), the chief local elected official (LEO), and the RWIB partners.

MOU Guideline Assumptions

- The regional workforce investment partners, representing Titles I, II, III, IV of WIA, all have equal representation to the RWIB. The adult education representative has the authority to negotiate Title II programs, services, funding and ancillary services to be included in the regional MOU.
- The administrator or appointed designee of each community college based adult basic education program will serve as the adult education representative to the RWIB.
- The MOU guidelines are designed to serve as a model in determining Title II programs, services, funding and ancillary services to be included in each regional MOU.
- The Title II commitment to the RWDC should focus on providing basic skill's core and intensive services as opposed to direct funding.
- The preferred strategy is to implement a process whereby the RWIB's negotiate one comprehensive regional MOU with all required partners as opposed to individual regional MOU's between or among one or more partners.

Required Partners

- Adult, Dislocated Worker, and Youth Activities under WIA
- Employment Services
- Adult Education and Family Literacy Act (Title II of WIA)
- Postsecondary Vocational Education under Perkins III
- Vocational Rehabilitation under WIA
- Welfare-to-Work
- Title V of Older Americans Act
- Trade Adjustment Assistance
- NAFTA-TAA
- Veterans Employment and Training Programs
- Community Services Block Grant
- HUD-Administered Employment and Training Programs
- Unemployment Insurance
- Local Board and local elected official (LEO) may approve participation of other programs.

REQUIRED COMPONENTS OF MOU

- Title II Services to be provided through the Regional Workforce Development Centers

Core Services
- basic skills assessment (the most predominant assessment appraisal instrument being utilized is the CASAS/ECS 130),
- basic skills instruction,
- referrals to basic skills classes,
- referral to other types of training programs such as vocational programs, apprenticeship programs, etc.)
- Information on Supportive Services.
  -- transportation and child care
  -- special services for individuals with disabilities or special needs.
- Cost information with respect to local providers of literacy services.

Intensive Services
- comprehensive assessment of skills and service needs.
- Short-term prevocational services (assessment, counseling, referrals to basic skills instruction, etc.)

Information on required performance measures and benchmarks.
- See Attachment A

Other Services
- preliminary job placement, job shadowing, career exploration, English literacy programs, volunteer tutors, adult high school diploma, academic enrichment classes.
- Student competency based learning gains reports provided to sponsoring agencies.
- Student attainment of earned certificates or diplomas (i.e. basic skills certificates, Iowa High School Equivalency Diploma, Adult High School Diploma.)

The number and types of core and intensive services to be included in the regional MOU by the Title II program provider is locally determined. Iowa's Title II local providers provide most of the core and intensive services outlined above.

- How the costs of such services and the operating costs of the system will be funded.

  As a required RWDC partner, the Iowa Department of Education must ensure that a portion of the funds made available under section 231 is used, by providing services or through other means, to "create and maintain the RWDC delivery system": The funds or services that are contributed to creating and maintaining the RWDC delivery system in the local region are negotiated with the RWIB as part of the MOU.

  - Proportionately. The contribution must be "proportionate" to the use of the system by individuals attributable to "the partner's program (20 CFR §662.270). The method of attributing individuals to a partner program is negotiated as part of the MOU (20 CFR §662.250(c)). Other related considerations, such as how the system is used by attributable individuals, including the level or intensity of services that are provided to them, might also be considered in applying this principle of proportionality.

  - Limitations on Local Administrative Costs under AEFLA. Contributions to the operating costs of the RWDC delivery system, such as the rental costs of facilities used by administrative staff, are presumptively administrative costs under AEFLA, as defined by section 233(a)(2) of WIA. The amount of federal funds available under section 231 for non-instructional purposes is limited to 5%, but may be negotiated with the Iowa Department of Education to a higher level at the request of an eligible provider under section 231 (sec. 233(b)).

    Costs of other Administrative Responsibilities under AEFLA. Section 231 providers have other administrative responsibilities under AEFLA and must retain sufficient funds from federal or non-federal sources to fulfill these responsibilities.

  - Allowable Costs under AEFLA. Local program providers may only contribute toward costs that are allowable costs under AEFLA and Department of Education regulations for State -administered programs (34 CFR Part 76). 34 CFR §76.533, for example, prohibits the use of funds "for the acquisition of real property or for construction unless specifically permitted by the authorizing statute" for the program. AEFLA does not authorize the use of funds for the acquisition of real property or for construction.

  - The Iowa Department of Education or its RWDC partner designees (community colleges) must ensure that a portion of its WIA Section 231 funds be used by providing services or through other means to create and maintain the RWDC delivery system (i.e. provide adult literacy core and intensive services) (20 CFR §662.230 (b)(1)(2)).

- Support for the core services and for operating costs may be in cash or in kind contributions (20 CFR §662.250 and 20 CFR §662.270). The Title II core services will be provided directly by the community college basic skills provider utilizing Title II program funds or other local, state or federal funds that may be legitimately applied to meet the basic literacy skills needs of Iowa's target populations.

- Funding levels and methods of reimbursement must be contained in the terms of the MOU with the RWIB (20 CFR §662.300).

- All contributions to RWDC delivery systems must be in support of Title II-allowable activities (20 CFR §662.280).

- Support for core services and for operating costs must be in proportion to the use of applicable core services by Title II enrollees; guidelines for this concept are still being developing (20 CFR §662.250 and 20 CFR §662.270).

- Supplement – not supplant – rules still apply (20 CFR §662.280).

  -- Title II funds may be used to supplement literacy core and intensive services in the RWIB, but can not be used to support non-related literacy functions (i.e. filing of unemployment insurance claims, employment statistics, etc.).

- See attachment B for further examples.

- Methods of referral of individuals between the RWIB operator and the RWIB partners.

  Description of the mechanism established to refer Workforce Development Center target populations to appropriate basic skills services and how clients are referred from the basic skills programs to the RWDC.

- The duration of the MOU, and the procedures for amending the MOU during the stated duration period.

  MOU time frame will be established by the RWIB. The Workforce Investment Act (WIA) is authorized for state fiscal years 2000-2004 (July 1, 1999-June 30, 2004). Therefore, the MOU time frame can not exceed the period of authorization of the Workforce Investment Act.

  The RWIB has the authority to amend the MOU based on input from mandated partners, other agencies, etc. The MOU must delineate the specific procedures for amending the MOU.

- Such other provisions, consistent with the requirements of Title I, as the parties to the agreement determine to be appropriate.

  This section of the MOU can delineate optional provisions as determined by the RWIB and agreed to by the mandated partners. This section should reflect specific provisions unique to a specific community college district or program.

Failure to Execute an MOU

UASDOL regulations section 20 CFR §662.310(b) requires that the local Title II provider and the RWIB enter into "good faith negotiations" to execute an MOU that meets the requirements of Title I. The Title II provider must document the negotiations and efforts that have been undertaken to execute a regional MOU. In the event that an impasse in negotiations develops, the Title II provider may request assistance from the Iowa Department of Education in resolving the impasse. The Title II provider must inform the Iowa Department of Education if it has not been able to execute a regional MOU with the RWIB (20 CFR §662.310 (b)). The Title II provider may not serve on the RWIB if it has failed to execute a regional MOU (20 CFR §662.310(c)). Any region in which the RWIB has failed to execute an MOU with all required partners is not eligible for WIA Title I incentive grants awarded on the basis of local coordination of activities under 20 CFR §665.200(d)(2) (20 CFR §662.310(c)).

Sources of Information

The two documents which should be utilized in the development of the MOU are: (1) Iowa's State Plan for Adult Basic Education: Fiscal Years 2000-2004, (sections 3.3, 6.2.3.1 [Item #9 p. 88] and 9.4) and (2) the Iowa Department of Education approved local Adult Basic Education Plan. The item which should be referenced from the local plan is selection criteria #9 which references the common literacy services which should be included in the local MOU. The literacy services are: (1) initial assessment utilizing the CASAS ECS 130 appraisal, (2) types of referrals to literacy classes, (3) providing adult learner progress reports utilizing the TOPSpro software, and (4) negotiated financial arrangements to provide literacy services.

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ATTACHMENT A

NRS PERFORMANCE MEASURES, BENCHMARKS AND METHODOLOGIES

CORE MEASURES (Required)	METHODOLOGY	PROGRAM RESPONSIBILITY	DATA SOURCE
Outcome Measures			
*Educational Gain	Direct program report (assessment)	Local	TOPSpro
*Entered Employment	Data matching	State	Data match between state GED data base and IWD Customer Tracking data base
*Retained Employment	Data matching	State	Data match between state GED data base and IWD Customer Tracking data base
*Receipt of a Secondary School Diploma or GED	Data matching	Local	Data match between Premier and TOPSpro
*Placement in Postsecondary Education or Training	Data matching	Local	Data match between Premier, TOPSpro, or state GED database with Community College MIS
*Iowa Basic Skills Certification Program	Direct program report	Local	TOPSpro
Demographic Measures			
Ethnicity	Direct program report (intake)	Local	TOPSpro
Gender	Direct program report (intake)	Local	TOPSpro
Age	Direct program report (intake)	Local	TOPSpro
Student Status Measures			
Public Assistance Status	Data matching	State	Data match between state GED and DHS welfare database
Reasons for attending (primary and secondary)	Direct program report (intake)	Local	TOPSpro

*Required performance measures and benchmarks as mandated by Title II of the Workforce Investment Act of 1998 and the National Reporting System (NRS).

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ATTACHMENT A (CONTINUED)

NRS PERFORMANCE MEASURES, BENCHMARKS AND METHODOLOGIES

CORE MEASURES (Required)	METHODOLOGY	PROGRAM RESPONSIBILITY	DATA SOURCE
Student Participation Measures			
12 Contact Hours	Direct program report (ongoing during instruction)	Local	TOPSpro and/or Community College MIS
Program enrollment type	Direct program report (intake)	Local	TOPSpro
Secondary Measures (Optional			
Work-based project learner achievement	Direct program report (assessment)	Local	TOPSpro Data match between Premier and TOPSpro
Reduction in public assistance	Local follow-up survey or data matching	State	Data match between state GED and DHS welfare database
Achieved citizenship skills	Direct program report (assessment)	Local	TOPSpro
Low income status	Direct program report (intake)	Local	TOPSpro
Displaced homemaker	Direct program report (intake)	Local	TOPSpro or Community College MIS
Single parent status	Direct program report (intake)	Local	TOPSpro or Community College MIS

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ATTACHMENT B

SUGGESTED GUIDELINES FOR COST ALLOCATION PLANS

• General Cost Allocation Principles

The RWDC operator and partners need to identify the total cost of the RWDC system. This should be detailed in a schedule identifying direct cost associated with each partner and indirect cost shared by each partner. This includes the partners located at the RWDC and those partners located at various other locations in the local workforce investment area.

The partners must comply with the Federal Cost Principles set forth in the applicable Office of Management and Budget (OMB) Circulars. The following lists the circulars and corresponding entities:

- OMB Circular A-21 – Cost Principles for Educational Institutions.
- OMB Circular A-87 – Cost Principles for State, Local and Indian Tribal Governments.
- OMB Circular A-122 – Cost Principles for Nonprofit Organizations.

The allocation methodologies used are to be based on a measure of relative benefit received that will produce an equitable allocation of costs to the programs. Measuring benefit received is the critical requirement and central task to be performed in allocating costs. Established cost allocation principles dictate that costs are allocable to a particular cost objective based on benefits received by that cost objective. The cost allocation process that is adopted must be fully documented. The structure and capabilities of the partners' accounting systems must be considered in designing an operable cost allocation process.

Changes in a partnership's cost allocation plan that result in a retroactive redistribution of costs to the benefiting cost objective are allowable where the change results in a more equitable distribution of costs. If such changes are needed they should be justified and well documented.

Prior to determining the method of cost allocation it is necessary to determine if the costs are direct or indirect.

Direct Costs: Costs that are identified specifically with a cost objective and charged directly to that objective are direct costs. They are costs that can be identified specifically with a final cost objective. They may also be costs pending allocation to a final cost objective based on an intermediate cost objective or a cost pool that is used to accumulate costs. Direct costs may be classified as assignable or shared.

Assignable Direct Costs: Costs charged directly to final cost objectives that do not require any further allocation or breakdown are assignable direct costs.

Shared Direct Costs: Costs that cannot be readily assigned to a final cost objective, but which are directly charged to an intermediate cost objective or cost pool and subsequently allocated to final cost objectives are shared direct costs. These costs are incurred for a common or joint purpose benefiting more than one funding stream.

Indirect Costs: Indirect costs are costs that have been incurred for a common or joint purpose and cannot be readily identified with a particular final cost objective. A method of allocation must be used to distribute the indirect costs to the various direct activities that benefited. To distribute indirect costs equitably and consistently, a cost allocation plan must be developed. A cost may not be allocated as an indirect cost if that cost or any other cost incurred in the same circumstance and for the same purpose has already been assigned to the program as a direct cost.

Key Considerations

Measuring Benefit: Measuring benefit is the critical requirement and central task to be performed in allocating costs. Costs are allocable to a particular cost objective based on the benefits received by that cost objective. When the direct measurement of benefit cannot be done efficiently and effectively, then it is appropriate to pool the costs for later distribution. The allocation base is the mechanism used to allocate the pooled costs to final cost objectives. Care should be taken to ensure that the basis chosen does not distort the results.

Allocability: For a cost to be allocable to a particular cost objective, it must be treated consistently with other costs incurred for the same purpose in like circumstances. Any cost allocable to a particular grant or other cost objective under these principles may not be shifted to other Federal grants to overcome funding deficiencies, to avoid restrictions imposed by law or grant agreement, or for other reasons. Costs that are prohibited by a funding source may not be paid or used as offsets under a pooled cost agreement.

Allowability: To be allowable, a cost must be necessary and reasonable for the proper and efficient administration of the program. To reduce the risk of accumulating and being held accountable for disallowed costs, program operators should carefully review anticipated program expenditures, the terms and conditions of the award, and applicable regulations before any program costs are incurred.

Reasonableness: For a cost to be reasonable under an award, it cannot exceed that which would be incurred by a prudent person under the same circumstances. In determining the reasonableness of a given cost, consideration should be given to:

- Whether the cost is a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
- The restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, Federal and state laws and regulations, and terms and conditions of the award.
- Whether individuals concerned acted with prudence in the circumstances considering the responsibilities to the organization, its members, employees and clients, the public at large, and the government.
- Significant deviations from the established practices of the organization that may have unjustifiably increased the award's costs.

Cost Allocation Plan

This section provides for general guidance on cost allocation procedures to ensure that costs are properly and equitably distributed to the benefiting cost objective.

The cost allocation plan is a document that identifies, accumulates, and distributes allowable direct and indirect costs under grants and contracts, and identifies the allocation methods used for distributing costs. A plan for allocating joint costs is required to support the distribution of those costs to the grant program. Formal accounting records to substantiate the propriety of the eventual charges must support all costs included in the plan.

These guidelines are intended to outline the minimum requirements associated with establishing a Cost Allocation Plan.

Contents of a Cost Allocation Plan

Once pooled costs to be shared among partners are identified, a basis of allocation must be agreed upon that is fair to benefiting programs, measurable, consistent, and supported by ongoing data collection. Different bases may allocate different pools. A cost allocation plan is required to document the allocation process and is to include at least the following elements:

- Organization chart that identifies all partners, types of services provided, and staff functions.
- A description of the type of services and programs provided by the RWDC system.
- A copy of the official budget that includes all costs of the system.

- The methods used in allocating the expenses to benefiting cost objectives. This requires identifying the basis for allocating each type of pooled cost, and the documentation for supporting each basis of allocation.
- Certification by the RWDC operator that the plan has been prepared in accordance with these guidelines.

Cost Allocation Parameters

- Each partner must pay or offset its portion of pooled costs in addition to paying its own direct costs.
- The RWDC system cannot deviate from existing federal, state, or local regulations. Costs that are prohibited by a funding source (federal, state, or local) may not be paid or used as offsets under a pooled cost agreement.
- Components of the cost pool are limited to costs incurred during the period of operation.
- Offsets are based on cost. In the case of staff, use actual salary and benefit costs in calculations, not number of staff and function performed. If different individuals will perform the function, then an average of their actual salaries and benefits may be used. Square footage will generally become the allocation basis for space. The cost per square foot becomes a pooled cost that is a direct charge to the partners.

Development of the Cost Allocation Plan

The basic process follows these steps:

Step 1 Classify Costs
- Cost classification is the process of labeling direct and indirect costs relative to the cost allocation process. The two categories are pooled and non-pooled.

Step 2 Pool Costs
- Cost pooling is the process of accumulating costs into pools pending allocation to benefiting programs. Similar allocable costs, which may be combined to simplify the allocation process, should be pooled.
- In cost pooling, the time and expense to isolate a cost and allocate by usage may cost more than the benefits derived from the process, i.e., telephone charges. In this case the cost should be combined and allocated with other costs in a consolidated larger pool.
- The partners may decide the level of cost allocation within the pool. Cost items may be allocated individually or all cost items in the pool can be totaled and the total allocated. The decision will depend on the level of budget control required and program reporting requirements.
- The following are a few examples of the types of cost pools that may be developed:

Facility Cost Pools:

- A cost pool may be broad enough to benefit all co-located programs and integrated service cost centers. An example would be a pool where rent, utilities, janitorial, receptionist costs, phone and other facility overhead costs would be recorded.

Categorical Cost Pools:

Some cost pools may contain only specific costs (telephone line charges) or type of costs (copier maintenance agreements, copy paper, toner, copier repair) because the benefits from the cost require a special allocation method due to unequal use or benefit across programs or cost centers.

Organization Cost Pools:

Some expenditures may benefit only parts of a partnership. For example, one integrated service area cost center may be set up as a pool for all the programs in that cost center. Also, a pool may be established for a sub-set of the programs within an integrated service area center.

System Wide Cost Pools:

These pools will capture those costs (such as the expenses of the Regional Workforce Investment Board (RWIB) that benefit all partners and need to be proportionally allocated.

Step 3 - Allocation

Cost Allocation Plan assigns costs accumulated in cost pools, which benefit entities/programs. OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments provides four major requirements for a cost to be allocable.

- "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

- "All activities which benefit from the governmental unit's direct costs... will receive an appropriate allocation of indirect costs."

- "Any cost allocable to a particular federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restriction imposed by law or term of the Federal awards, or for other reasons. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements."

- "Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required..."

Step 4 Selection of Allocation Bases

When costs are pooled instead of directly assigned to a final cost objective, the ability to directly assign benefit for each item of cost is lost. Instead, the pool contains a group of common costs to be allocated by using an indirect or approximate measure of benefit. The approximate measure of benefit is the allocation base. An allocation base is the method of documentation used to measure the extent of benefits received when allocating joint costs among multiple partners. The base(s) selected should adhere to the following principles:

- Minimal Distortion - The base should be distributing costs in a fair and equitable manner without distorting the results. This requires that the base be as causally related as possible to the types of costs being allocated so that benefit can be measured as accurately as possible.
- General Acceptability - The base should be generally accepted and in conformance with GAAP. For example, it should be consistently applied over time. The base should also be drawn from the same period in which the costs to be allocated have been incurred.
- Represents Actual Costs or Effort Expended - The base should be a measure of actual cost or actual effort expended. It should not be based solely on a plan, budget, job description, or other estimates of planned activity.
- Timely Management Control - The base should be within management's ability to control on a timely basis. The base should produce reliable and fairly predictable results. If the base is erratic and unpredictable, beyond management's ability to control, or not timely, it is likely to produce unacceptable results.
- Consistency with Variations in Funding - The base must be able to accommodate and withstand changes in funding during the year and from year to year. If the base excludes factors that are affected by variations in funding, it will produce distorted results.
- Practicality and Cost of Using the Base - The base should be as efficient as possible in terms of the cost or effort in developing it. Thus, wherever possible, use a database that already exists in the financial or participant report keeping and reporting systems rather than create a separate database to be used only for allocating costs.
- Cost allocation methods vary, just as cost types do. The objective of the method used is to ensure reasonableness and equity. It will be necessary to use several different bases for allocating different types of costs. Once the methods of allocation have been established the methods should be used consistently over time and be described in your cost allocation plan. The following are examples of options for various cost allocation bases that may be used in the allocation process. These methods are not all inclusive. Any method may be used as long as it is reasonable, documented, and demonstrates benefit to the programs.

Usage

Equipment costs, such as copiers, computers, telephones, etc., may be used disproportionately by some programs and require allocation methods other than work area or time. This would require some usage logs, such as number of copies or long distance phone calls made. This could be time consuming and expensive for one item of cost like copier maintenance and supplies. A decision must be made whether the gains in fair distribution of costs from this more precise allocation would be material enough to support the extra expense of collecting information and distributing the costs.

Space Allocation

Fits facility wide costs such as rent, utilities and janitorial. Programs or service area costs centers benefit from those costs in proportion to the work area (square feet), and, in some cases, usage. Other costs that benefit all occupants of the facility, such as copier maintenance; receptionist's salary, etc. may also be allocated using this basis. This assumes a correlation between square feet allotted to a partner and number of staff benefiting from those costs.

Personnel Allocation

Can be used to allocate any cost where partners benefit from costs in proportion to the staff time worked on them. To use this process, there must be a documented time distribution system. With a time distribution system, costs flow to the area of work emphasis, which normally correlates to funding.

Program Outputs

This process uses production figures and unit costs (e.g., placements, customers trained, assessments, etc.) to allocate costs of integrated service area cost centers to partners. It is based on the assumption that the cost to produce an output across programs is correlated to the results.

Contact Hours

This process uses actual time spent with customers to allocate costs of integrated service area cost centers to partners. To use this process, there must be documented records detailing the amount of time spent with customers for each partner. Costs would be allocated in proportion to the time spent for each partner to the total time spent with customers.

Cost Allocation and Resource Sharing Example

It is critical that each partner's estimated and actual shares of pooled costs, contributions, and related calculations be documented and attached to the written agreement. This data will form the audit trail. Actual costs and allocation bases must be reviewed at least quarterly. Changes to reimbursement arrangements may be needed due to unexpected variations in costs or the allocation base.

The following provides examples of calculating partners' share.

Once you have selected one or more bases, you are ready to estimate each partner's share of pooled costs. The following example illustrates cost estimates based on square footage for pooled facility costs and number of projected participants for pooled equipment, salary and fringe benefit costs, and RWIB expenses.

Assumptions:

- The partnership will not be a separate employer, and will have no funds of its own. All staff, including the office manager, intake workers, and receptionist, will be employees of one or another of the partners. Also, purchases made or services ordered for individual partners will pay for this site.
- One partner compiles all the fiscal records, and each partner pays their own bills.
- One of the partners already leases a suitable building. Utilities are included in the lease. The other two partners of the RWDC will move staff and some furniture and equipment to this site.
- The partners of the RWDC have pooled costs for the lease and janitorial services. They have allocated these costs among themselves based on square footage occupied.
- Partners 1, 2, and 3 are co-located at the RWDC.
- Partner 4 is not located at the RWDC. The only RWDC costs that they have agreed to share are the cost of the intake personnel and the RWIB meeting expenses.

EXAMPLE

FACILITY POOL	
Janitorial Service	$21,600
Rent (including utilities)	20,000
Total	$41,600

EXAMPLE

ALLOCATION BASIS - FACILITY POOL				
	Square Feet		Percent	Planned Share of Annual Costs
Partner 1	625	625/2500	25	$10,400
Partner 2	875	875/2500	35	14,560
Partner 3	1000	1000/2500	40	16,640
Total	2500			$41,600

Assumptions:

- The partner who leases the building has a telephone system in place.
- In addition to equipment brought by the partners, the partnership will need a high volume copier (and supplies and maintenance contract), a fax machine (and supplies), four desks, four chairs, four new computer terminals, and connections to the Health and Welfare Data Center.
- The phone system and all the new equipment and furniture will benefit all partners and will be part of a cost pool.
- Issues such as copier replacement and marginal costs for compatibility in phone systems are not addressed.

Note: Costs incurred prior to the start date of the partnership agreements are not allocable to the RWDC system. For example, Partner 1 purchased a computer system in March 2000 to be used in the RWDC. The cost of this system cannot be included in the RWDC allocation of costs.

EXAMPLE

EQUIPMENT	
Copier (including Maintenance)	$25,000
Fax	1,400
Furniture	2,400
Terminals	14,000
HVAC Charges	10,000
Telephones	1,000
Total Equipment	$53,800

One partner provides for an office manager on-site who oversees day-to-day operations and also a receptionist, which benefit three partners, and two intake workers, which benefit all four partners. The RWIB has incurred organizational and meeting expenses totaling $10,000.

EXAMPLE

SALARY AND BENEFITS OF OFFICE MANAGER & RECEPTIONIST	
Office Manager	$70,000
Receptionist	22,600
Total (Salary & Benefits)	$92,600

EXAMPLE

SALARY AND BENEFITS OF INTAKE STAFF & RWIB EXPENSES	
Intake Staff	$70,000
RWIB Meeting Expenses	10,000
Total (Salary & RWIB)	$80,000

Projected Participants:

- Project the number of participants for each program.
- Calculate each partner's percentage of total projected participants.
- Calculate each partner's share of cost based on percentage.

Note: The base of projected participants shown in this example is for illustration purposes only. We are not suggesting that this method be necessarily used for the allocation of these types of costs. As described in other sections of this Guide, the RWIB should determine allocation methods that most equitably allocate costs to all partners sharing in that cost.

EXAMPLE

EQUIPMENT				
	Expected Participants		Percent	Planned Share of Annual Costs
Partner 1	330	330/1980	16.67	$ 8,968
Partner 2	770	770/1980	38.89	20,923
Partner 3	880	880/1980	44.44	23,909
Total	1980		100.00	$53,800

EXAMPLE

OFFICE MANAGER & RECEPTIONIST				
	Expected Participants		Percent	Planned Share of Annual Costs
Partner 1	330	330/1980	16.67	$15,436
Partner 2	770	770/1980	38.89	36,012
Partner 3	880	880/1980	44.44	41,152
Total	1980		100.00	$92,600

EXAMPLE

INTAKE & RWIB				
	Expected Participants		Percent	Planned Share of Annual Costs
Partner 1	330	330/2200	15.00	$12,000
Partner 2	770	770/2200	35.00	28,000
Partner 3	880	880/2200	40.00	32,000
Partner 4	220	220/2200	10.00	8,000
Total	1980		100.00	$80,000

Adding the results of the four charts together gives the total each partner plans to pay or contribute as its share of pooled costs.

EXAMPLE

	Partner 1	Partner 2	Partner 3	Partner 4	Total
Facility Pool	$10,400	$14,560	$16,640	-0-	$ 41,600
Equipment	8,968	20,923	23,909	-0-	53,800
Office Mgr. & Recept.	15,436	36,012	41,152	-0-	92,600
Intake & RWIB	12,000	28,000	32,000	$8,000	80,000
Total	$46,804	$99,495	$113,701	$8,000	$268,000

This partnership hopes to minimize the payment of cash among the partners, and has worked out the following plan for offsetting costs.

EXAMPLE

OFFSETTING PARTNER CONTRIBUTIONS					
	Partner 1	Partner 2	Partner 3	Partner 4	Total
Fax	$1,400				$1,400
Furniture	2,400				2,400
Terminals	14,000				14,000
Telephones	1,000				1,000
Intake Specialists	35,000	35,000			70,000
Copiers		25,000			25,000
Receptionist		22,000			22,000
Janitorial Services			21,600		21,600
Rent			20,000		20,000
HVAC			10,000		10,000
Office Manager			70,000		70,000
RWIB Meeting Exp.				10,000	10,000
Cash Payments	(6,996)	16,895	(7,899)	(2,000)	-0-
Totals	$46,804	$99,495	$113,701	$8,000	$268,000

Information Accumulation and Reporting

- As the result of the preceding steps, you now have estimates of the pooled costs and the percentage each partner will pay. At this point you must establish reporting systems to capture actual data for the basis of allocation you selected, and actual expenditures.
- Note: For purposes of this example, the square footage occupied by each partner does not change during the reporting period, and the facility related costs exactly match the estimate.
  -- Record the number of participants served by each partner.
  - Calculate the number of projected participants for this quarter. For the purposes of this example, projected annual participants are divided by 4. In practice, the number of projected participants may vary from quarter to quarter. (Step 1)
  - Record the actual number of participants served this quarter by each partner. (Step 2)
  - Calculate the percentage of actual participants served by each Partner. (Step 3)

EXAMPLE

Partner	Projected Annual Participants	Projected Participants This Quarter	Actual Participants This Quarter	Percent of Total (Based on Actual Participants Served) Partners All	1, 2, & 3 Partners
1	330	83	90	17.65%	16.07%
2	770	193	180	35.29	32.14
3	880	220	240	47.06	42.86
4	220	55	50	-0-	8.93
Total	2200	551	560	100.00%	100.00%

- Record actual expenditures

Assumptions:

- The partners that purchased equipment show the entire cost of each item in their own financial records in the month of purchase, but the partnership is expensing the equipment cost over a 12-month period.

- The partner, which bought the terminals, had a small discount, which it deducted from the total cost of the terminals before the quarterly actual expenditure was recorded.

  -- Determine the projected quarterly expenditure for each cost in the equipment and salary pools, e.g., divide projected annual cost by 4. (Step 4)

  -- Record the actual expenditure for the month. (Step 5)

EXAMPLE

Pooled Item	Annual Cost	Quarterly Projected Expenditures	Actual Expenditures this Quarter
	Equipment Step 4 Step 5		
Copier (incl. Maint.)	$25,000	$ 6,250	$ 6,250
FAX	1,400	350	350
Furniture	2,400	600	650
Terminals	14,000	3,500	3,250
HWDC Charges	10,000	2,500	2,250
Telephones	1,000	250	275
Totals	$53,800	$13,450	$13,025

EXAMPLE

Salary, Benefits & RWIB Meeting Expenses			
Office Manager	$ 70,000	$17,500	$17,500
Intake Staff (2)	70,000	17,500	17,500
Receptionist	22,600	5,650	5,650
RWIB Meeting Exp.	10,000	2,500	2,250
Totals	$172,600	$43,150	$42,900

Paying Pooled Costs Based on Analysis of Data

At the conclusion of each quarter partners should review actual data for the basis or bases of allocation selected and apply the result to actual expenditures. This is done because each partner's share of the pooled costs is determined by the basis of allocation that was selected.

Because each partner's square footage has not changed during the report period, actual costs are the same as estimated costs for the facility pool, as illustrated in the following chart.

EXAMPLE

Partner	Projected Annual Facility Costs	Projected Facility Costs This Month	Actual Facility Cost this Quarter
1	$10,400	$ 2,600	$ 2,600
2	14,560	3,640	3,640
3	16,640	4,160	4,160
Total	$41,600	$10,400	$10,400

The next chart applies each partner's percentage of participants served to the actual expenditures in the equipment pool.

EXAMPLE

Partner	Actual Participants This Quarter	Percent of Total	Share of Equipment Based on Actual Participants Served
1	90	17.65	$ 2,299
2	180	35.29	4,596
3	240	47.06	6,130
Total	510	100.00	$13,025

The next chart applies each partner's percentage of participants served to the actual expenditures incurred for the Office Manager and Receptionist.

EXAMPLE

Partner	Actual Participants This Quarter	Percent of Total	Share of Office Manager Based on Actual Participants Served
1	90	17.65	$ 4,086
2	180	35.29	8,170
3	240	47.06	10,894
Total	510	100.00	$23,150

The next chart applies each partner's percentage of participants served to the actual expenditures incurred for the Intake Staff and RWIB meeting expenses.

EXAMPLE

Partner	Actual Participants This Quarter	Percent of Total	Share of Intake Staff amd RWIB Meeting Expenses Based on Actual Participants Served
1	90	16.07	$ 3,174
2	180	32.14	6,347
3	240	42.86	8,465
4	50	8.93	1,764
Total	560	100.00	$19,750

Combining information from the four charts above yields each partner's share of actual costs for the report period.

EXAMPLE

	Partner 1	Partner 2	Partner 3	Partner 4	Total
Facility Pool	$ 2,600	$ 3,640	$ 4,160	-0-	$10,400
Equipment	2,299	4,596	6,130	-0-	13,025
Office Mgr. & Recept.	4,086	8,170	10,894	-0-	23,150
Intake & RWIB	3,174	6,347	8,465	$1,764	19,750
Total	$12,159	$22,753	$29,649	$1,764	$66,325

The actual bills are paid based on agreements reached regarding reimbursements and offsets.

EXAMPLE

Partner	Annual Quarterly Payments	Quarterly Payments (Based on Initial Projections)	Difference Quarter	Difference Total Period
1	330	83	17.65%	16.07%
2	770	193	35.29	32.14
3	880	220	47.06	42.86
4	220	55	-0-	8.93
Total	2200	551	100.00%	100.00%

It is important that the RWIB and the RWDC partners do their best to develop sound and reasonable projected expenditure and allocation base figures in the development of their initial resource sharing agreements. However, it should be recognized that despite these best efforts, there almost always will be variances between projected and actual figures as demonstrated in the above example. Because of this it will be important to closely and frequently monitor the relevant financial data and make adjustments to the resource sharing agreements as necessary and appropriate. Otherwise, situations may develop in which some partners will not be able to pay their required share of systems costs. This will result in a disproportionate sharing of costs among the rest of the partners and may result in those partners incurring cost disallowances.

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